

null
Dianne Wampler 08/14/2006 04:22:58 PM From DB/Inbox: Dianne Wampler

Cable
Text:

C O N F I D E N T I A L ANKARA 04707

SIPDIS
CX:

ACTION: ECON
INFO: RAO FAS CONS MGT PMA FCS PA POL DCM AMB

DISSEMINATION: ECON /1
CHARGE: PROG

APPROVED: ECON:TGOLDBERGER
DRAFTED: ECON:TGOLDBERGER
CLEARED: ECON:DYOUNG

VZCZCAYI857
RR RUEHGB RUEHC RUCNRAQ RUEHIT RUCPDOQ RUEATRS
RHMFISS RHEBAAA RUEUITH RHWSMRC RUEKJCS RUEKJCS RHEHAAA
DE RUEHAK #4707/01 2231544
ZNY CCCCC ZZH
R 111544Z AUG 06
FM AMEMBASSY ANKARA
TO RUEHGB/AMEMBASSY BAGHDAD 0712
RUEHC/SECSTATE WASHDC 7929
INFO RUCNRAQ/IRAQ COLLECTIVE
RUEHIT/AMCONSUL ISTANBUL 1088
RUCPDOQ/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RHMFISS/HQ USEUCOM VAIHINGEN GE
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUEUITH/ODC ANKARA TU//TCH//
RHWSMRC/USCINCENT MACDILL AFB FL//POLAD//
RUEKJCS/JOINT STAFF WASHDC//J-3/J-5//
RUEKJCS/SECDEF WASHDC//USDP:PDUSDP/ISA:EUR/ISA:NESA/DSCA//
RHEHAAA/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 004707

SIPDIS

E.O. 12958: DECL: 08/05/2010
TAGS: [ECIN](#) [EPET](#) [ETRD](#) [PREL](#) [IZ](#) [TU](#)
SUBJECT: TURKEY VIEWS ON HABUR GATE, FUEL TRADE TO SOMO,
AND BEYOND

REF: A. ANKARA 4406
[1](#)B. ANKARA 4000
[1](#)C. ANKARA 1392
[1](#)D. 05 ANKARA 6952

Classified By: Economic Counselor Thomas Goldberger for reasons 1.4 (b)
and (d)

[1](#)1. (C) Summary. Although the smuggling investigation that had impeded Turkish fuel shipments to Iraq is over and construction of the new customs facility at Habur is nearly complete, Turkish trade officials observe that Iraqi demand for fuel from Iraq appears to be declining. At the same time, SOMO made a recent request for FTU approval of imports of 30,000 tons of gasoline and diesel from a single Turkish company. FTU is loath to approve this request, which would contravene the bilateral framework agreed last February to protect the Turkish companies to which SOMO owed about \$1 billion in unpaid bills. While FTU is willing to have another look at the specifics of the February agreement, it is not willing to give up the protections for Turkish companies contained in the MOU. Meanwhile, FTU says that a second border gate could be constructed at Ovakoy in about one year at a cost of about \$50 million. Building a second gate closer to Habur with Ovakoy to come later -- as is being discussed by Turkish and Iraqi diplomats -- would take longer, be more expensive to build, and far less advantageous

to Iraqi and Turkish trade. End Summary.

Iraqi Imports From Turkey Falling

12. (C) Foreign Trade Undersecretariat (FTU) Director General Sevket Ilgac told Econ/C and Econoff August 11 that Iraqi demand for fuel imports from Turkey seemed to have declined in recent weeks. (As we see in the daily reports from the border.) He attributed this to increased production from Iraqi refineries, which he also saw reflected in increased fuel oil exports to Turkey that are bartered for Turkish electricity exports, as well as to increased purchases from Iran, Syria, and perhaps Jordan. He noted that two Turkish fuel trading companies (NFI) were exporting to Iraq via Iran.

13. (C) The anti-smuggling investigation at Habur had also of course contributed to lower exports, particularly for LPG, which he said was subject to the most abuse by smugglers. He said that 70 LPG tankers were still being detained by the public prosecutor investigating the case. However, the operational part of the smuggling investigation -- and the delays it ensued -- was, he said, finished.

14. (C) Ilgac said that construction of the new customs facility at Habur was now expected to be completed by end-September, as opposed to the original plan to be done by the end of August. This would bring throughput capacity to 5000 vehicles per day (2500 each way). He understood that capacity could be increased even more to 7000 or so if Turkish customs was able to purchase sophisticated x-ray machines that would speed inspection of fuel tankers. He noted however that current throughput was only 2000 per day (two-way).

SOMO Requests for New Purchases Outside MOU

15. (C) Nevertheless, Ilgac said he received an urgent request August 9 from SOMO DG Mussab al-Dujayli for FTU approval of the purchase of 30,000 tons of gasoline and diesel from TPIC, the Turkish state-owned fuel trading company. Ilgac noted that this request was outside the February and June MOU's between FTU and SOMO that provided for repayment of past due arrears and a system involving letters of credit for new SOMO purchases from the 30-odd Turkish companies to which SOMO was indebted. According to Ilgac, SOMO is more or less current on the arrears payments (7 out of 10 of the so-called "category A" monthly payments have been received), but SOMO has not provided L/C's for the remaining \$350 million in new ("category B") purchases. He understood that SOMO had requested this funding from the Iraqi Finance Ministry, which had refused to provide it.

16. (C) Given that the category B arrangements were designed to protect Turkish companies that had extended credit to SOMO, Ilgac said he was loath to approve a new arrangement until category B was settled. Doing so would also expose him and other bureaucrats to personal legal risk. Therefore, he had referred the request to Trade Minister Tuzmen. For the same reasons, however, he did not think that Tuzmen would approve a new purchase until the category B purchases were arranged between SOMO, FTU and the Turkish companies.

17. (C) Ilgac stressed, however, that he was ready to re-discuss with SOMO technical terms of category B, such as the payment period that were agreed in the February MOU. Most importantly, he stressed that once category B was "settled," FTU would step back from its oversight of the fuel trade -- which had only been necessary because of the enormous debts SOMO had incurred to Turkish companies -- and allow SOMO to contract freely with Turkish companies according to its desires. He understood that SOMO wanted to deal with fewer than the 30 companies to which it is currently indebted, but the GOT needed those debts to be

settled before new contracts were opened.

New Border Gates

¶8. (C) Asked about new border gates between Turkey and Iraq, Ilgac made a strong economic argument for locating a new gate at Ovakoy. He said putting another new gate at or near Habur -- as proposed by Turkish and Iraqi diplomats seeking to overcome the objections of the KDP to a new gate at Ovakoy -- made no economic or political sense (the &why not just expand Habur?8 pitch). On the other hand, the new gate that Turkey has been proposing for years to be built at Ovakoy would avoid the very mountainous region southeast of Habur at Zakho and most importantly link Turkey's high-speed road network to Iraq's highway network with only the construction of short connector routes. He said approximately 15 km of roads and two bridges would need to be constructed on the Turkish side of the border for a cost estimated at \$20 million in 2001 and approximately 30 km of roads costing \$35 million would need to be built in Iraq to connect to the Iraqi highway network.

¶9. (C) This small investment of just \$55 million would, Ilgac claimed, link Turkey's and Iraq's highspeed road network (once a strip between Gaziantep and the Iraqi border is completed). It would provide the entire region north of Baghdad with easy access to the large Turkish Mediterranean port in Mersin as well as direct highway access to Europe. Furthermore, this would facilitate trade between Turkey and the Gulf, which had been interrupted since the 1980s. (Trucking through Syria, Jordan and Saudi Arabia is too expensive/corrupt, time-consuming and complicated, he said). Once political stability had been achieved in Iraq, this connectivity would give an enormous economic benefit to Iraq and help tie the region to Europe and the rest of the world through Turkey. He said there was a strong interest in the UAE business world in such a route and that there was a longer term vision of improving the link between the Turkish and Iraqi railroad networks, which could then link into expanded Saudi and Gulf railways. He hoped that the "people of northern Iraq" would come to recognize and buy-in to this vision of cooperation.

¶10. (C) Ilgac said that building a facility and road improvements in the mountainous area near Habur, as is being discussed by Turkish diplomats, would take longer and be more expensive than the Ovakoy solution. Ilgac acknowledged that the ultimate call was political and that the issue was being handled by MFA Iraq Coordinator Celikkol, to whom he has explained his views in detail. He understood that the price of a gate at Ovakoy might be a third uneconomical gate at or near Habur. Still, this inefficient approach to the problem was frustrating to his businesslike, results-oriented instincts.

Visit Ankara's Classified Web Site at
<http://www.state.sgov.gov/p/eur/ankara/>

WILSON